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Executive Registry

Approved For Release 2005/02/10 : CIA-RDP76B00952R000400030003-0

PPB 70-1498

11 SEP 1970

MEMORANDUM FOR: Deputy Director for Support

SUBJECT : Contract Overrun Study Recommendations

1. I have reviewed the comments of each Deputy Director concerning the recommendations contained in the O/PPB Contract Overrun Study. The DD/P feels that, proportionately, the study impacts most heavily on the DD/S&T, but I think that the basic message in the study applies wherever there is potential or actual overrun. Therefore, steps should be taken to implement these recommendations in a practical and useful fashion.

2. The Support Directorate appears to have the major responsibility for action; particularly in the Office of Logistics, Office of Finance, and the SIPS Task Force. Those components, in cooperation with O/PPB and other components as appropriate, should initiate action to incorporate contract overrun controls into their present and developing systems and to develop a contract management training program for technical officers. I would urge the Director of Logistics to continue his efforts to develop and retain a nucleus of trained and experienced younger professional contracting officers. We cannot permit the high quality of CIA contract management to deteriorate because of the retirement of experienced personnel.

3. Please provide me with a report of progress by 4 January 1971.

7s/ L. K. White

L. K. White

Executive Director-Comptroller

cc: DD/P
DD/S&T

O/PPB/ [] mjd: 11 Sep 70

Distribution: O & 1 - Addressee
1 - Each cc

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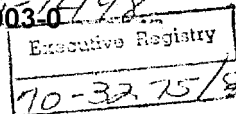
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ExDir

PPB Subj

PPB Reading

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31 AUG 1970

MEMORANDUM FOR: Executive Director-Comptroller

SUBJECT : Directorate Comments on the Contract
Overrun Study

REFERENCES : a. Memo to ExDir frm DD/S&T, dtd 9 Jul 70;
same subject
b. Memo to ExDir frm DD/S, dtd 16 Jul 70;
same subject
c. Memo to ExDir frm DD/P, dtd 11 Jul 70;
same subject

1. Attached is a memorandum to the DD/S for your signature.
2. The comments of the DD/S&T, the DD/S and the DD/P concerning the Contract Overrun Study are individually summarized below:

a. DD/S&T: DD/S&T's comments reflect general agreement with the conclusions and recommendations of the report. He emphasizes those dealing with a determination of cost-growth causal factors and those urging closer integration of the technical, financial and contract management facets of the procurement process.

b. DD/S: The DD/S' comments indicate no serious disagreement with the thrust of the report or its recommendations. O/L and SIPS apparently have initiated examination of practical approaches to the classification of cost-growth factors. The DD/S mentions the difficulties of a "total systems" approach to procurement planning, cost estimating and contracting. (The report recognizes these difficulties and suggests that a long-range approach be used only "where possible.") The DD/S agrees with the training recommendation. With respect to the anticipated near-term attrition of experienced contracting officers, the DD/S points out the administrative problems involved in meeting increasing contracting officer recruitment

requirements with decreasing manpower authorizations. He indicates, however, that steps have been initiated recently by the Director of Logistics which he hopes will arrest deterioration in the availability of trained and experienced contracting officers over the next few years.

c. DD/P: The DD/P felt that the study was more concerned with large-scale contracts such as pertain to the DD/S&T than to the smaller hardware oriented TSD contracts. Also he noted the additional complexity for TSD of short deadlines and security restrictions. He concluded that instituting an Agency system for determining the cause factors of contract cost growth would not be sufficiently relevant to the CS contract world. He contends that the TSD internal contract information fulfills the requirement for long-range project cost estimates and consequently, with both the Agency's contract information and TSD's system, no further action is necessary. The DD/P concurs with the need for a training program in contract administration for technical officers. He also agrees with the desirability of maintaining a corps of well-trained and experienced contracting officers, but questions today's priority of that requirement against current restrictions on available resources.

3. It is true that implementation of the report recommendations will provide data which could be utilized by any Directorate or subordinate element to improve its control over contract cost escalation and the accuracy of its estimating processes. No Directorate needs to feel compelled to use it, however. The main thrust of this study is to improve the Agency's posture and knowledge in these matters. Two of the three Directorates agree to at least the general principles of the recommendations and the third, except for the training program and the logic of having good contracting officers, does not.

4. The implementation of the recommendations contained in this study are within the primary areas of interest and responsibility of the Deputy Director for Support. O/PPB, of course, should participate and assist in the design of the data system. These two offices should work together to adapt and implement the essential and feasible features of the study recommendations.

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5. It is recommended that the attached letter directing implementation of the study recommendations be forwarded to the DD/S over your signature.



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John M. Clarke
Director of Planning,
Programming, and Budgeting

Orig - ExDir (ret. PPB)

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Executive Registry
70-3275

DD/S&T-2449-70

9 July 1970

MEMORANDUM FOR: Executive Director-Comptroller

SUBJECT: O/PPB's "Assessment of the Agency's
Contract 'Overrun' Situation"

1. We have carefully reviewed subject report and fully appreciate the exhaustive effort that it represents.

2. Our own experience indicates that the conclusions and recommendations are valid. I particularly favor those recommendations which support the concepts of some kind of classification of the causal factors in understanding "cost growth" on the one hand, and the necessity for well-indoctrinated, experienced teams whose activities follow sound fiscal and technical planning from origin to completion on the other.

For:

Carl E. Duckett
Deputy Director
for
Science and Technology

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11 JUL 1970

Executive Registry

70-3275/2

MEMORANDUM FOR: Executive Director-Comptroller

SUBJECT : OPPB Study of the Agency Contract
Overrun SituationREFERENCE : Assessment of the Agency's Contract
"Overrun" Situation

1. I have received the very thought provoking study of "... The Agency's Contract Overrun Situation" performed by OPPB. It has been reviewed in depth by members of my staff. My comments follow.

2. First, I would note that the study appears to be based primarily on information derived from a review of DD/S&T contract actions. It would seem therefore to be more pertinent to their type of predominantly feasibility study and system oriented efforts. It is not apparent that very much attention was paid to the 500 or so primarily hardware related contract actions handled annually by the Contracts Management Group assigned to my Directorate.

3. Second, many of the substantive recommendations are based on a comparison with DOD contracting procedures. However, given the very large difference in size between a typical DOD R&D contract action of at least several million dollars and TSD's individual contract actions which average well under fifty thousand dollars, it is felt that there is no real basis for comparison of management reporting requirements or procedures. Moreover, the additional complexity required of TSD contracts by virtue of the often critical demands of short time deadlines coupled with special "need-to-know" and compartmentalization restrictions further distinguish the typical TSD contract from DOD contracts and, indeed, DD/S&T contracts. For these reasons, I feel that any attempt to impose on the Agency's very specialized procurement requirements (both in scale and scope so different from DOD) a system tailored to the latter's management needs is not in the best interests of the Agency. We continue of course to be receptive to any suggested changes which may further improve our contractual procedures. In fact, TSD is currently reviewing its internal contract management with the goal of streamlining and tightening management controls.

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4. Referring specifically now to the Part 6 recommendations contained in the Study, the following comments are keyed to the individual subparagraphs:

a. I feel that the recommended system is best suited to an R&D program involving dollar levels many times larger than those associated with the average Clandestine Service or Agency contract as discussed above. The CS needs are adequately met by the Contract Information System now in use.

b. My comments in subparagraph a. pertain.

c. The present Agency Contract Information System already provides precisely the information described in this recommendation and it is not felt that any further action is necessary.

d. While the Contract Information System already goes part way towards this goal in requiring FY plus 1 funding estimates by project, TSD has its own internal requirements for additional detail as shown by the attached Contract Information Report which is required with each new TSD contract action.

e. I am in complete agreement with this recommendation and suggest that it be forwarded to the Office of Training for implementation.

f. While I am in agreement with the general thrust of this recommendation, it seems to me that the question of additional resources involving both slots and dollars must be considered in the light of current restrictions on both manpower and budget, Agency-wide.

[Redacted Signature]

Thomas H. Karamessines
Deputy Director for Plans

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Attachment
Contract Information
Report Form

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Contract Information Report

CONTRACTOR 2H			TYPING DATE		BRANCH CALL NO.	
CONTRACTOR'S ADDRESS 2H			CONTRACT STATUS 2J		Office	
CLASS 2H			Code	Month	Day	Year
COMPANY CONTACT			SCHEDULED COMPLETION DATE 2K		Year	
COMPANY PHONE NO.			Month		Day	
			FAN 2A		ORN 2A	

FUNDING SOURCES				FUNDS REQUESTED - 2D		FUNDS APPROVED 2D		DATE APPROVED		PREVIOUS FUNDING	
1	2	3	4							FY	TOTAL FY AMOUNT
ESTIMATED ADDITIONAL FUNDS TO COMPLETE				TOTAL REQUESTED		TOTAL APPROVED		TOTAL PREVIOUS FUNDING			
0-50 K	50-150 K	>150 K	N. A.								

TYPE OF CONTRACT 2L		CONTRACTOR PLAN 2I		PROJECT CRYPTONYM		PROJECT OFFICER 2G	
PRIORITY		CLASSIFICATION 2B Work Ster. Code		TECHNICAL FIELD 2E		TYPE OF WORK 2N	
LOGISTICS CONTRACT NO. 2M Contract No. T. O. No.		Request No. F. Y.		INTRA COORDINATION 2F		INTER COORDINATION 2F	
CONTRACT TITLE 2C				INITIAL DISPOSITION			
BRIEF PROJECT DESCRIPTION AND DELIVERABLES							

PURPOSE OF THIS REPORT	IS PROJECT COST OR TIME AFFECTED?	CONTRACTOR WILL PROBABLY STAY WITHIN PRESENT FUNDING:	YES	NO	FUNDS SPENT
BASIS FOR THIS REPORT	IS PROJECT PERFORMANCE AFFECTED?	CONTRACTOR WILL PROBABLY STAY WITHIN ALLOTTED TIME:	YES	NO	TIME SPENT
IS THERE A CHANGE IN SCOPE?	IS THERE A CHANGE IN PROJECT PRIORITY?	CONTRACTOR PERFORMANCE SINCE LAST REPORT 5A Unsat. Below Av. Average Above Av. Excellent			

DISCUSSION

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D & E Form 02

1-70

Obsolete Previous Editions

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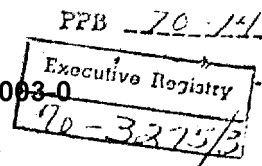
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PROJECT OFFICER'S SIGNATURE

GROUP 1

Excluded from automatic
downgrading and declassification

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16 JUL 1970

MEMORANDUM FOR: Executive Director-Comptroller

SUBJECT : Assessment of the Agency's Contract "Overrun"
SituationREFERENCE : Report by [] O/PPB, dtd June 70,
same subj

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1. This memorandum is in response to your request for comments on the referent report.

2. [] presents a meaningful picture of the factors that contribute to the Agency's overrun problems. The report outlines the basic problems and the shortcomings in the data-information system which limits analysis of overruns. It is a thorough study and a valuable analysis of the situation, and its recommendations for improving the management of the contracting process are generally reasonable.

3. The major responsibility and equity of the Support Directorate, as it pertains to this report, is found in the responsibility of the Director of Logistics as the Agency Contracting Officer. These comments are accordingly concerned with how the report bears on this responsibility.

4. There are several conceptual observations, at variance with the report, but which are of such substantive value that they should not be overlooked. In approaching the central issue of cost overruns as treated in the report, we must remember it is the problem we wish to solve and not its symptoms. We believe the report does indicate that contract management, or even mismanagement at times, is only a symptom and that rectifying the form but not the substance is not a solution. We would observe that it is profitable to study the experiences of other agencies, but are also mindful that "fads" in the field of procurement exist as they do in other areas. The report mentions several times that we should emulate the current "cost growth" categorization now in fashion in the Department of Defense. The Office of Logistics is studying this approach. We also note

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25X1 that the DOD-inspired concept of "incentive contracting" is not as highly thought of today as it once was. DOD also became enamored with the "total procurement package" approach to weapons systems procurement, but the sad experiences of [] procurement history is causing much restudy of that technique. My point here is that caution should be exercised not only because the magnitude of the DOD and its program personnel resources are so far greater than ours, but also because there is merit in allowing DOD to be the "test-bed" to prove the efficacy of a new concept before we prematurely adopt it.

5. Lastly, we would observe within this Agency there is very uneven organizational experience in various types of contracting. Certain compartmented elements have greater experience in the multimillion dollar systems area of procurement, while the conventional Agency procurement mechanism has had but one experience in that field, []. Until recently, this unevenness of experience detracted from the over-all Agency record, but the active and large-scale rotation of Procurement Officers now taking place will tend to spread various types of experience through all contracting units.

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6. The following comments concern specific portions of the study. The study recommendation for a data bank of information on overrun situations can provide a useful tool for future contracting efforts. Overruns are now analyzed on an individual contract basis, and we do not have an over-all program for relating the various causes for overruns to the contractors involved. Such a system would provide systematic feedback to the decentralized procurement teams. We believe it appropriate that this matter be taken under cognizance by the Support Information Processing System Task Force and that this element, working in conjunction with the technical offices and appropriate contracting elements, develop an appropriate program.

7. The second recommendation calls for the identification and banding of contracts directed towards specific hardware or systems in order to estimate total package costs prior to initiating the first contract. From the contracting officer's point of view, this method offers an ideal situation. From the operational side which is the responsibility of the technical officer, it is recognized that rarely is it possible to lay out an entire contract for a research and development project until preliminary

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efforts are completed and evaluated. This approach is already used and encouraged where it is feasible. This is an example, however, of the contract only being the form of the problem whose solution must be found in the Agency's programming and property systems.

8. The value of the third recommendation regarding formal training in contract administration and management for the technical officer speaks clearly for itself. A well-qualified technical officer with a background in contracting is a most valuable asset to the Agency during both the negotiation period and the run of the contract. The close relationships now developing between technical officers and contracting officers, as a result of decentralization of procurement teams, is providing informal training through cross-fertilization. I also endorse the suggestion for a well-developed formal course, bearing in mind the competition for the limited time, personnel and funds available.

9. The requirement for substantial numbers of experienced contracting officers in the Office of Logistics Career Service, mentioned in the final recommendation, is recognized by the Director of Logistics. This need is well identified in the report and it is not easily overcome. At the time approval was given to implement a decentralized procurement system, it was well known and stated that this system would call for more contracting officers than the former centralized system. For understandable reasons no additional personnel authorizations were provided, but the fact remains that the contracting line grew thinner. Secondly, and compounding the first problem, the constantly decreasing size of Tables of Organization is applying greater pressure against accessing and training new contracting officers. We no longer have the uses of "development complements" which at an earlier period alleviated the quantitative problem. Although his depth in personnel strength is limited, the Director of Logistics is actively developing a reservoir of middle-management talent capable of assuming senior contracting officer responsibility by frequent rotation and exposure to the types of contracting experience. In addition, during the past 18 months, a half dozen new promising young professionals have been placed in a concentrated development program, including formal training at DOD schools, to refill the contracting officer pipeline. Personnel ceiling restraints limit the number of careerists that can be assigned in the field but, within these limitations, new personnel will continue to be fed into the program to insure a reservoir of qualified contracting personnel.

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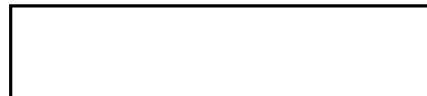
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10. The text of the report discusses a variety of facts and problems faced in handling contract overruns. We do not fully agree with the statement that changes in scope are the leading cause of overruns. A legitimate change in scope, when properly funded, is fee-bearing and should not be considered as an overrun. We certainly agree, however, that inaccurate estimates and changes, deliberate low bidding, and rising inflation and overhead rates, are major causes of overruns.

11. In sum, we are in general agreement with the report, although we believe that there are practical problems to implementing some of the recommendations.



Deputy Director
for Support

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- 4 -

Approved For Release 2005/02/10 : CIA-RDP76B00952R000400030003-0

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20 July 1970

MEMORANDUM FOR:

SUBJECT: CS Response to "Overrun" Study
and Recommendations

1. At your request I have reviewed the DD/P's response to your "overrun" study. My thoughts on this matter follow.
2. Any recommendation such as yours usually has a dual function. First, it strives to provide executive management with information. Secondly, and often equally importantly, it can nudge Agency components into adopting procedures that will enhance their management effectiveness. The DD/P's response to your proposal is that it won't enhance TSD/DDP's effectiveness, and, therefore, they will not "play." My feeling is that the proposals you make can increase TSD's management effectiveness. Even if they do not, TSD should probably, as the recipient of 25-33% of the Agency R&D contract funds, be required to participate to make the data base on "cost growths" whole.
3. Language in the DD/P's response about special security requirements is a standard "red herring." His complaint that a DOD standard directed to multi-million dollar contracts is inappropriate to TSD's work can be given more respect. The DD/S raises a similar concern, but does not offer it as a rebuttal of the value of your recommendations. As I construe your recommendation, calling for a classification of cost growth causes, similar to that of DOD, there is plenty of room for the DD/P and the DD/S to advise in the establishment of a classification system, tailored to Agency needs. Need for tailoring in no way mitigates the value of your suggestion that we specify, identify and record causes of cost growths.
4. Another facet of the DD/P's response is his belief that the "cost growth" categorization system you suggest is perhaps more appropriate to DD/S&T types of contracts. Though TSD does do a great deal of work with small, sub-\$50,000 contracts, they do have a number of large, complex systems development efforts. Their contract for the development of a laser, non-access,

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25X1 audio system is a case in point. Additionally TSD is moving to larger scale, higher cost efforts as a matter of policy. A recent project approval for a [] audio components development is a good example.

5. The DD/P misconstrues the current capability of the CIS when he states that it provides the type of information you recommend in your recommendation c. Though the system characterizes contracts according to five DOD denominators, Research through Operational Systems Development, it does not cover the important innovation you present in c.(2); "level of effort," according to funds available. The DD/P's confidence in the present CIS capabilities is further belied by the fact that TSD is the only R&D component in the Agency that does not request distribution of the Contractor Plan Deviation report, which shows variances signalling possible troubles developing in a contract action.

6. The Contract Information Report form attached to the DD/P's memorandum appears redundant with the Contract Inspection Report, required once every 60 days by the Office of Logistics. A copy of this form is attached.

7. The DD/P states that CS needs for cost growth information are met by the present CIS. Even if this claim is true, it misses the point that what is needed is the compilation of a "historical" data base, not just another contract status monitoring tool.

8. As far as I can discern, a request levied on TSD to provide cost growth information would not be onerous. Such information from TSD is necessary to complete an Agency-wide picture. Discernment and categorization of "cost growths" by TSD officers will probably sharpen their thinking about project management and about certain contractors. Lastly, need to report such information, accurately, should catalyze a closer working relationship between TSD project officers and the TSD contract officers, than I suspect is presently the case.

[]
R&D Team

Attachment
As Stated

JTS:lw
Distribution:

Orig - Addressee

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CONTRACT INSPECTOR REPORT Approved For Release 2005/02/10 : CIA-RDP76B00952R000400030003-0		CONTRACT NO.		TASK NO.	
TO: CONTRACT ADMINISTRATION & SETTLEMENT BRANCH/PD/OL		DATE			
		INSPECTION REPORT NO. (If final, so state)			
		ESTIMATED COMPLETION DATE			
NAME OF CONTRACTOR					
TYPE OF COMMODITY OR SERVICE					
THE CONTRACTOR IS ON SCHEDULE <input type="checkbox"/> YES <input type="checkbox"/> NO			THE CONTRACTOR WILL PROBABLY REMAIN WITHIN ALLOCATED FUNDS <input type="checkbox"/> YES <input type="checkbox"/> NO IF ANSWER IS "NO" ADVISE RECOMMENDATION AND/OR ACTION OF SPONSORING OFFICE, ON REVERSE HEREOF. IF KNOWN, INDICATE MAGNITUDE OF ADDITIONAL FUNDS INVOLVED.		
PER CENT OF WORK COMPLETED - PER CENT OF FUNDS EXPENDED -					
HAS AN INTERIM REPORT, FINAL REPORT, PROTOTYPE, OR OTHER END ITEM BEEN RECEIVED FROM THE CONTRACTOR DURING THE PERIOD? <input type="checkbox"/> YES <input type="checkbox"/> NO (If yes, give details on reverse side.) HAS GOVERNMENT-OWNED PROPERTY BEEN DELIVERED TO CONTRACTOR DURING THIS PERIOD? <input type="checkbox"/> YES <input type="checkbox"/> NO (If yes, indicate items, quantity, and cost on reverse side.)					
INCENTIVES					
IS THIS AN INCENTIVE CONTRACT <input type="checkbox"/> YES <input type="checkbox"/> NO IF YES, CHECK TYPE <input type="checkbox"/> COST <input type="checkbox"/> AWARD FEE <input type="checkbox"/> PERFORMANCE <input type="checkbox"/> DELIVERY			NOTE: USE REVERSE SIDE FOR COMMENTS. FINAL REPORT MUST CONTAIN INCENTIVE EVALUATION.		
OVERALL PERFORMANCE OF CONTRACTOR					
1. <input type="checkbox"/> OUTSTANDING		4. <input type="checkbox"/> ABOVE AVERAGE		7. <input type="checkbox"/> UNSATISFACTORY	
2. <input type="checkbox"/> EXCELLENT		5. <input type="checkbox"/> AVERAGE			
3. <input type="checkbox"/> VERY GOOD		6. <input type="checkbox"/> MINIMUM ACCEPTABLE			
IF OVERALL PERFORMANCE OF CONTRACTOR IS UNSATISFACTORY OR MINIMUM ACCEPTABLE INDICATE REASONS ON REVERSE SIDE.					
RECOMMENDED ACTION					
<input type="checkbox"/> CONTINUE AS PROGRAMMED			<input type="checkbox"/> WITHHOLD PAYMENT PENDING SATISFACTORY PERFORMANCE		
<input type="checkbox"/> TERMINATE			<input type="checkbox"/> OTHER (Specify)		
IF TERMINATION IS RECOMMENDED OR IF THIS IS A FINAL REPORT PUT COMMENTS ON REVERSE IN NARRATIVE FORM ON CONTRACTOR'S PERFORMANCE AND CERTIFY THAT ALL DELIVERABLE ITEMS UNDER THE CONTRACT HAVE BEEN RECEIVED. THESE INCLUDE, WHERE APPLICABLE, THE FOLLOWING:					
ITEM	REC'D	DOES NOT APPLY	ITEM	REC'D	DOES NOT APPLY
PROTOTYPES			MANUALS		
DRAWINGS AND SPECIFICATIONS			FINAL REPORT		
PRODUCTION AND/OR OTHER END ITEMS			SPECIAL TOOLING		
			OTHER GOVERNMENT PROPERTY		
DATE OF LAST CONTACT WITH CONTRACTOR					
SIGNATURE OF INSPECTOR			DIVISION		
INSPECTOR'S EXTENSION			SIGNATURE OF APPROVER		